



TESTIMONY OF CARL J. METZGER, DIRECTOR

29 June 2005 before the

**Subcommittee on Management, Integration and Oversight
Committee on Homeland Security
United States House of Representatives**

On

**“Transforming the Department of Homeland Security
Through Mission-Based Budgeting”**

*“Serving Public Servants through Collecting and Communicating Knowledge
About United States Government Performance and Results”*

Mr. Chairman and Members of the Subcommittee:

Thank you. It is an honor to testify about our views on Mission-Based Budgeting as a mechanism to transform the Department of Homeland Security (DHS). We are reasonably familiar with the Department's historical origins of assimilated disparate agencies, legislative foundations, and subsequent Planning, Operations and Reporting. Particularly striking are the monumental management challenges to the new leadership team of Secretary Michael Chertoff, Deputy Secretary Michael Jackson, and Under Secretary for Management Janet Hale and how this new team is wisely addressing those challenges initially. The Secretary's "second-stage review" to take a close look at the missions, goal achievement, and gaps between where DHS is and wants to be is completing this month. He has clearly articulated that DHS leadership must act jointly to: integrate intelligence, policy and operations across the department so each component is directed from an enterprise-wide perspective with a clear focus on prescribed DHS outcomes. Bureaucratic stovepipes must be eliminated and information shared effectively.

The Department identified in its FY 2004 Performance and Accountability Report notable performance highlights in achieving its seventh strategic goal of Organizational Excellence, such as reducing nineteen financial management centers to ten, consolidating contracting offices, formulating its first enterprise architecture, and establishing a Network Operations Center and an enterprise-wide intranet.

The motivation of this Subcommittee, as Stakeholders, is to accelerate this improvement process by reforming the way the Department allocates its limited resources based on the three mission areas of prevention, vulnerability reduction, and

recovery/response plus non-homeland security-related functions. DHS submissions in the future will clearly reflect budget, cost, performance and results but will be simplified by mission segment. Other than a “mission” orientation, mission-based budgeting is not unlike performance-based budgeting that is mandated for all federal agencies by OMB in Circular A-11. DHS would develop recommendations that would specify (a) institutional, financial, and productivity goals and (b) funding for department-wide priorities. Once approved and implemented, I agree that, first, Departmental leadership would be better able to hold DHS entities accountable for achieving and complying with performance expectations and guidelines and, second, that American citizens would better understand resource allocation priorities and results by the tri-partite mission segmentation of prevention, vulnerability reduction, and response/recovery.

The non-profit Government Results Center which I direct has for more than eleven years assisted government agencies share lessons learned in performance management, reaching approximately 10,000 officials via e-mails and upwards of 200 government personnel monthly in free meetings that feature reports by Department Leaders and practitioners on various cost, performance, results and integration management efforts in the federal government. My comments and suggestions to the Subcommittee are based upon our learning about those departments’ and agencies’ better practices toward managing for results. The remarks will be according to the following categories:

- The Extraordinary Importance of Leadership
- An Adaptable Governance Process
- Development of an Exemplary Departmental Component
- Strategically-Aligned, Continuously Improving Culture
- Benchmark Before DHS Application
- Real Involvement of Stakeholders and Partners

THE EXTRAORDINARY IMPORTANCE OF LEADERSHIP

The Interior Department proclaims it is critical to have leadership direction, ownership and support. “Direction” to Interior means both substantive strategic direction on the Agency’s future courses of action, and direction in terms of how the performance (mission)-budget process will be managed, and who is responsible. “Ownership” means that senior leadership actually uses the system to make crucial resource decisions, and they personally identify with its successes and failures---meaning that they have an active hand in designing and tailoring the system to suit their needs...and not totally delegate to staff. “Support” means paying more than lip service to the system, but truly providing adequate funds and the appropriate intellectual capital. This suggests an ongoing learning process in which decision-makers too should be trained to understand and use the system. Managers in the Interior Department do not hesitate to commend the Deputy Secretary (Designate), Lynn Scarlett, for her in-depth knowledge of the planning, financial and program management, bureau operations, support functions, reporting, and success in motivating employees. Every day Ms. Scarlett is personally leading the cultural transformation by demonstrating how supervisors must manage strategically, involving subordinates and communicating how an individual employee’s work actually aligns with Interior’s strategic goals.

Similarly, Patrick Pizzella, Assistant Secretary for Administration and Management, exerts extraordinary leadership at the Department of Labor. Because of his centralized oversight through his OASAM staff, Mr. Pizzella successfully deploys cultural transformation and excellence into Labor’s Administrations. Ten years ago Labor was not evaluated as a leading Department in results-based management. Today Labor IS a recognized leader as judged by OMB and other external reviewers. Both Interior and Labor have leaders at the Deputy Secretary or Assistant Secretary level who have accepted top responsibility for performance management integration and the cultural transformation process.

AN ADAPTABLE GOVERNANCE PROCESS

Governance is critical to transformation in that it provides a clear, transparent decision-making process that fosters consistent behavior linked to the missions and senior management vision. The goal of governance should be consistent and effective oversight for initiatives throughout all phases of their lifecycles. A governance system is necessary to establish enterprise-wide standards for senior leadership, program managers, business sponsors, and support functions. Breeding and nurturing an accountability culture takes time and top leadership insistence. Operating divisions must be actively involved in design, implementation and evaluation. Leadership must insist on their organization's responsiveness to OMB and Congress, working with both as effectively as possible to understand and adjust. Anecdotes abound of agencies' dialogue with OMB examiners where initial PART scores for programs were very low but through program managers' communications of proven results, scores rose dramatically. Listening, understanding, and adjustment are powerful to gain satisfaction of stakeholders and partners.

At the Department of Labor, a management review board shares department-wide responsibility for long-term, outcome-oriented results. There is a cross-cutting emphasis by the Board. They focus on goals important to the Department as a whole, but provide a framework which maps the cascading responsibilities down to every level within the Department. Every SESer, non-SES manager and supervisor has managerial and programmatic performance standards to be achieved in a cost-effective manner. There is at least one efficiency measure for every program. A performance-cost model recognizes the importance of both total cost and marginal cost associated with performance improvements.

NASA has developed a well-integrated system of strategic goals and performance goals with total and marginal costs. They relate those goals to the three mission areas of Understand & Protect, Explore, and Inspire. An interesting feature of NASA's system is that they keep their performance, cost and accountability system tightly linked to their evolving vision, mission and themes. In that sense, they provide an excellent example

of an adjustable, mission-based budgeting structure. NASA adjusts to political and priority changes. They have adjusted by streamlining goals, redesigning and simplifying their budget structure, and reducing the number of program areas – with every area relating back to the goals and forward to performance measures. They reduced the number of performance measures in order to focus on the critical few that drive the success of their mission. They have allocated all costs and budgets to the new structure. Their Integrated Budget and Performance Document aspires to be understandable to the public and used as a key tool in managing the agency.

DEVELOPMENT OF AN EXEMPLARY DEPARTMENTAL COMPONENT

Many departments have selected one component agency to develop an exemplary target process and system. The Fish and Wildlife Service at Interior is one example of cost and performance integration. The bureau tracks its costs through activity-based costing methodology and through cause-and-effect relationships assigns those activity costs to what they term “critical success factors”. Critical success factors are tied to the bureau’s operational goals. These operational goals are subsequently aligned with the Department’s end outcome measures. The two key elements in this structure are: 1) proper alignment to Departmental goals in order to support the Department in viewing the costs of its strategic objectives; and 2) cause-and-effect relationships to enable the bureau to analyze marginal costs and understand how changes in outcome targets/measures impact the resources required to achieve them. The initiative is promising for establishing a results and accountability culture that is complete with shared values and practices for a department-wide application.

In the mid-1990’s we saw how the pilot Marine Safety and Security Program provided a planning and reporting model for the entire Coast Guard to emulate. In turn, Transportation incorporated many of the Coast Guard’s processes and system for a department-wide application, and DOT became recognized as a leader to study and benchmark.

STRATEGICALLY-ALIGNED, CONTINUOUSLY IMPROVING CULTURE

Mission-based budgeting is an approach used to allocate an organization's resources in a cost-effective manner to the primary components of the organization's mission. Do a better job of making wise resource investments based on evaluating how these investments contribute to the Agency's mission. These contributions need to be spelled out in terms of concrete, measurable outcomes that make a difference to the taxpayer, and to America.

The challenges many observe in achieving "results-oriented, accountable government" are similar, in many respects, to those encountered in implementing mission-based budgeting. These challenges can be grouped into three categories: 1) the measurement challenge; 2) the management challenge; and 3) the cultural challenge. The measurement challenge concerns the difficulty of accurately determining how dollars drive performance. Measuring the cost of inputs, activities, outputs and ultimately outcomes related to missions becomes progressively more complex. As one proceeds along this continuum, a larger number of people and institutions contribute to the results, and it becomes harder to attribute given results to any single source of effort or dollars. The management challenge is how to allocate dollars to missions in the absence of analytically rigorous evidence. Various allocation mechanisms are available, including professional judgment, politically-driven motives, or pro rata assignments. But any of these approaches are on shaky analytical footing and can be called into question by internal and external stakeholders. Thus, Agency administrators must carefully design planning processes that accommodate the views of stakeholders.

The cultural challenge associated with mission-based budgeting or performance-budgeting relates both (a) to the organizational culture of the Agency initiating this effort

and (b) to the Agency's Congressional oversight, authorizing and appropriations committees. Agency cultures will need to overcome the 'stovepipe' mentality that has traditionally dictated that funding is allocated to line organizations based on capabilities and input needs. In such traditional organizations, budget linkage to missions or outcomes is accomplished through budgetary, strategic plan or performance plan narrative that declares the relationship to exist. True allocation of resources to missions or outcomes based on demonstrated performance connections is much rarer. However, some Departments, such as Interior and Labor, have demonstrated top leadership commitment to breaking down the stovepipes and not only backing, but actively guiding and participating in a strategically-aligned, continuously improving process that analytically allocates dollars to performance outcomes in successively more rigorous ways.

BENCHMARK BEFORE DHS APPLICATION

Since DHS is looking anew at its organizational and budget structure in accord with its missions, it would be prudent to identify lessons learned and better practices, at least in other federal departments. The DHS-wide eMerge2 solution has begun but is temporarily halted. In addition to the better practices in departments and agencies cited above, benchmarking to glean lessons from the Defense Department's enterprise-wide initiatives makes sense. The DHS at this juncture, is probably more complicated to run, even in comparison with DOD. However, DOD is working to evolve an effective bureaucratic discipline to run their enterprise-wide systems.

Benchmarking that DOD evolution as well as financial management, integration and budget restructuring efforts in other departments should be helpful to DHS. A strong DHS-wide, performance and cost-based management information and decision support system will accelerate the acceptance and use of mission-based budgeting as a legitimate management tool.

REAL INVOLVEMENT OF STAKEHOLDERS AND PARTNERS

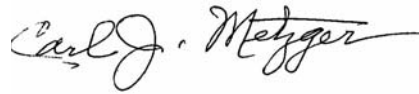
For the DHS who is struggling with so much newness and complexity to become an entity united toward three missions, it is particularly crucial to involve key stakeholders and partners in major transformations. Congress in particular must be viewed as more than a stakeholder. Congress must be a partner to work together with DHS on developing an effective working relationship that is capable of adjusting quickly in an environment that is changeable and potentially cataclysmic. In the absence of such a partnership, challenges to mission-based budgeting will be exacerbated. The Government Accountability Office recently observed that planning and budget structures serve different purposes, and any effort to achieve meaningful connections between them highlights tensions between their differing objectives. Appropriations staffers, for example, have a concern that all of this new performance-based budget information will replace some of the workload and output categories for which they currently get cost breakdowns. Staffers need that kind of information to satisfy their constituents. Restructuring can only take root once support exists for the underlying performance goals and metrics. In due course, once the goals and underlying information become more compelling and are used by Congress, budget restructuring may become a more useful tool to advance both mission-based budgeting and performance budgeting. The budget structure will more likely reflect—rather than drive—the use of performance and cost information in budget decisions. The missing elements regularly in agencies are fully understanding stakeholder needs, adjusting to those needs and successfully communicating an agency's achieved, measured outcomes.

At present most legislators and their staffers have concluded that aligned budget and performance structures work only if performance-cost information is credible, compelling, accepted, and directly useful for their objectives. Many, as in most States, use outcome measures as input to policy decisions, but rely on workload and output measures to make funding decisions. Supplementing, rather than replacing, key

information used by appropriations committees should be the guide. Closing that gap can be realized by truly involving Congress early in the dialogue.

Thank you, Mr. Chairman. I hope this testimony will be helpful to the Subcommittee in your deliberations on the most effective way to evaluate, monitor and allocate resources for our homeland security.

Testimony respectfully submitted by:

A handwritten signature in black ink, reading "Carl J. Metzger". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

Carl J. Metzger
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